The Grand Union Company

1976 Annual Report

FINANCIAL HIGHLIGHTS 1976

	52 Weeks Ended April 2, 1977	53 Weeks Ended April 3, 1976
Sales	**$1,622,633,000**	$1,611,195,000
Income before income taxes	**30,238,000**	21,136,000
Net income	**17,618,000**	11,687,000
Income per common share	**2.81**	1.87
Cash dividends per common share	**.95**	.80
Net income as a per cent of sales	**1.09%**	.73%
Working capital	**$ 125,072,000**	$ 99,517,000
Ratio of current assets to current liabilities	**2.05 to 1**	2.00 to 1
Average number of common shares outstanding	**6,234,362**	6,211,314
Number of common stockholders	**8,043**	8,744

Henry Curti, a cashier at Grand Union's Shirlington Plaza supermaket in Arlington, Virginia, has earned the nickname "Mr. Grand Union" for the courtesy and friendly service he gives to all customers.

GENERAL INFORMATION

Description of Business

The Grand Union Company is the nation's ninth largest supermarket chain, operating 484 supermarkets, 14 Grand Way general merchandise stores and nine Grand Catalog Showrooms in 11 Eastern states, Puerto Rico and the U.S. Virgin Islands.

Transfer Agent

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Registrar

Chemical Bank
20 Pine Street
New York, New York 10015

General Offices

The Grand Union Company
Corporate Headquarters
100 Broadway, Elmwood Park, New Jersey 07407
Telephone: (201) 796-4800

Stock Listing

Common Stock of The Grand Union Company is traded on the New York Stock Exchange under the ticker symbol "GUX."

Contents

Grand Union had improved sales and earnings in its 104th year of operation which ended April 2, 1977.

The company had net income of $17,618,000, or $2.81 per share. This compares with net income of $11,687,000, or $1.87 per share, for the 53-week fiscal year ended April 3, 1976, which included certain non-recurring charges to cover the expense of discontinued operations. Without these charges, net income for the previous year would have been $2.42 per share.

Sales for the 1976 fiscal year were $1,622,633,000 for 52 weeks as compared with $1,611,195,000 for 53 weeks last year. On a comparable 52-week basis, our sales increase was just under 3 per cent. Supermarket sales account for about 96 per cent of the total.

Inflationary pressures on the retail cost of food eased somewhat this past year with attendant benefits to consumers. There was no indication, however, that the rate of increase in our expenses eased in similar manner, and higher hourly wage rates, utilities, and local taxes, particularly, gave us problems.

Unemployment, especially in our own operating areas, continued at a high rate. The country's economy, while recovering from the recession, still remained somewhat sluggish. The combination of these factors, plus escalating expenses, greatly intensified competition. Downward pressure was exerted on our gross margins due to the increased competition for market share.

It is gratifying that our organization was able to overcome these difficulties and to achieve improved results for the fiscal year. Although the last quarter results were down relative to the comparable quarter of the previous year, we feel we are well situated to meet these problems, which have intensified in the current fiscal year.

The company has planned capital expenditures of approximately $150 million over the next five years. During the 1976 fiscal year, the company opened 21 new supermarkets and family centers, most of them in the 28,000-square-foot range, renovated 49 other older, but profitable supermarkets, and enlarged three more. At the same time, we closed 24 obsolete stores. At the close of the year, the company was operating 484 supermarkets.

Emphasis in our development plan this year will involve our continuing thrust into new marketing areas on the west coast of Florida, in the greater metropolitan area of Baltimore, Maryland, and into western and southern New Jersey. Other new supermarkets will open in our existing operating areas.

A major re-structuring of executive responsibilities occurred this past year. Thomas R. Doyle, formerly Executive Vice President of Supermarkets, has been promoted to Executive Vice President and Chief Operating Officer of the Company in recognition of his fine performance and many accomplishments during his 43-year career with Grand Union.

Under Mr. Doyle, the supermarket organization has been set up to give full day-to-day operating and merchandising responsibility to a group of younger executives who have played important roles in the improved profit performance of the past three years. Heading up the team is Patrick A. Deo as Executive Vice President of Supermarkets. He had been Senior Vice President in charge of Operations.

Mr. Deo's management team within the Supermarket Division includes Ernest H. Berthold, named Senior Vice President in charge of Supermarket Operations, and Alan C. Goulding, promoted to Senior Vice President in charge of Supermarket Merchandising. Mr. Berthold had been Senior Vice President in charge of Merchandising while Mr. Goulding had been Regional Vice President in charge of the company's 175-store New York Region.

Caryle J. Sherwin was appointed Regional Vice President in charge of the New York Region. He had served as Regional Vice President in charge of the company's 184-store Northern Region.

Joseph J. McCaig, previously Vice President in charge of the Empire Division, was

promoted to Regional Vice President in the Northern Region to replace Mr. Sherwin.

Stuart S. Tarrant was appointed Corporate Financial Vice President last year. He formerly served as Group Financial Controller of Cavenham Limited.

In May, Russell W. Schroeder was appointed Corporate Vice President in charge of Management Information Systems. Prior to joining Grand Union, he served in the same position with the National Tea Company of Chicago.

Subject to the approval of the Grand Union stockholders at a special meeting to be held July 28, 1977, Grand Union has entered into a merger agreement with Cavenham (USA) Inc., a wholly-owned subsidiary of Cavenham Limited, a United Kingdom food retailing and manufacturing organization. Cavenham (USA) owns approximately 81 per cent of the outstanding common stock of Grand Union. If the merger is consummated, holders of Grand Union common stock not owned by Cavenham (USA) will receive $21 principal amount of Cavenham (USA)'s 11½ per cent Sinking Fund Debentures for each share of Grand Union common stock held by them and Grand Union will become a wholly-owned subsidiary of Cavenham (USA). In February, the Grand Union Board of Directors approved the terms of the proposed merger after being advised by investment bankers that the exchange ratio would be fair to the public holders of Grand Union common stock.

Cavenham (USA) has filed a registration statement with the Securities and Exchange Commission with respect to the proposed issuance of its Debentures if the merger is consummated. Additional details of the proposal are contained in that registration statement which includes a proxy statement that has been sent to all Grand Union stockholders.

In evaluating the outlook for our supermarkets and our company for the current year, we expect severe competitive conditions to continue. Because of our renovation program over the years, our stores are in excellent condition. With imaginative sales programs, continued emphasis on holding down expenses, intelligent control over gross margins, and a better-trained work force, we feel we can hold our own in the market place and produce satisfactory results.

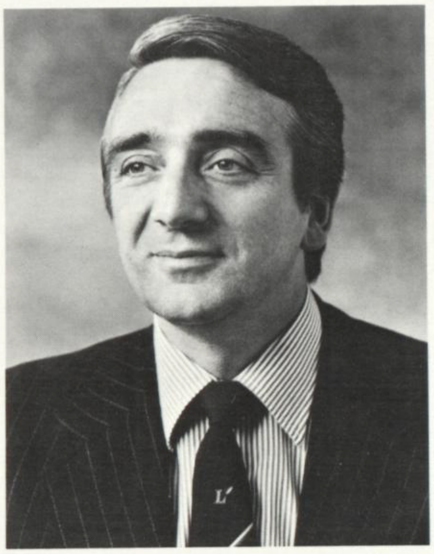
I would like to take this opportunity on behalf of management to thank the 21,325 members of the Grand Union team for their excellent efforts which produced such a fine record this past year.

Sincerely,

James Wood

James Wood
President and Chief Executive Officer

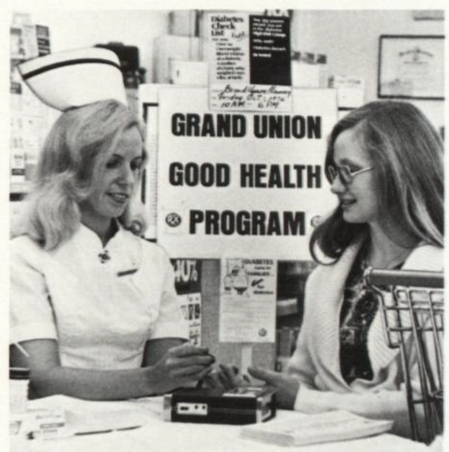
July 26, 1977



REVIEW OF OPERATIONS

Larger Grand Union supermarkets, such as this busy store in Toms River, New Jersey, are being equipped with ultra-modern electronic cash registers.

Mrs. Vicki Johnson, a cashier in the Ithaca, New York, store was cited by the *Ithaca Journal* for her courteous service.



As a community public service, the Grand Rx Pharmacy Department of the company has begun free diabetes testing in selected stores.

Home plant sections such as this one in a New Jersey supermarket are becoming more and more popular with customers.

Full-service branches of the First National Bank of New Jersey opened in three stores last November. This branch is in Paramus, N.J.


General Manager Kenneth McCormick gives a couple a sample of Grand Union baked goods during re-opening festivities in Tappan, N.Y.

Meat departments well-stocked with only U.S.D.A. Choice beef are a hallmark of Grand Union supermarkets.

Supermarket Division

Our supermarkets, which account for about 96 per cent of the company's sales, enjoyed an excellent year, as is directly reflected in the total company's results.

Faced with a declining rate of food price inflation, higher costs, and additional downward pressure on margins from intensified competition, the supermarket groups were successful in making necessary adjustments in major elements of their annual plan to achieve record high earnings. Advertising and promotion programs were developed to match the more aggressive competitors in each operating area, expenses were tightly controlled, and immediate attention was given to individual stores and to merchandising areas as soon as weaknesses were detected.

This is the first time in 20 years that all our supermarkets have operated a full year without trading stamps. We now have only one major competitor, confined to one of our operating divisions, who relies on trading stamps.

On the other hand, a proliferation of "games" of one kind or another were introduced during the year. Among the more popular were "Cash Bingo" and "Let's Go to the Races." These games were designed to increase customer traffic through the use of attractive cash prizes. Grand Union promoted several games in different divisions with surprisingly good results. However, when our competition reacted aggressively, the games sometimes became a break-even situation.

The recent re-structuring of top management in the Supermarket Division was described in the President's letter. Our supermarkets are divided geographically into three Regions, each containing several operating divisions.

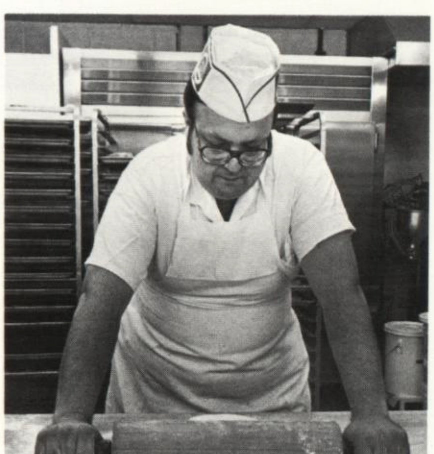
An additional move was made this past year in our Northern Region where the 150-store Empire Division was split into the Empire North and Empire South Divisions, each new division containing 75 supermarkets. Empire North Division stores are generally located in northeast New York in the Adirondack area and in Vermont and New Hampshire, while Empire South covers Albany and the Capitol District as well as the northern Hudson River Valley and eastern Mohawk Valley areas. The Central Division, operating out of Endicott, N.Y., is also in the Northern Region.

Competitive efforts in the way of low pricing, heavy advertising and promotion expense, including games, were particularly intense in our New York Region area where we have four operating divisions. It is greatly to the credit of the staffs of these divisions that they accomplished their annual profit projections. Included in the New York Region are the Long Island Division, the Metropolitan Division (Manhattan, Bronx, Westchester, Putnam and Fairfield counties), Suburban (northern New Jersey and lower New York State on the west side of the Hudson River) and Jersey Division (southern and western New Jersey).

In our Southern Region, we are concentrating our development efforts in the Baltimore area of our Washington Division and on the west coast of Florida. To give the company even greater flexibility in its Florida development, the Florida Division was split into two divisions. The Florida East Division

This new heat-sealing machine helps to package health and beauty aid orders at the company's S & G Distributors Warehouse.

Charles Metzger, General Manager of the company's Ridgewood, New Jersey, store helps a customer with a produce selection.



Baker Thomas Cascio rolls dough for a tasty baked product in one of the company's in-store bakery departments.

operates all stores in the Dade, Broward and Palm Beach County areas, while the Florida West Division operates all stores on the Gulf Coast. Opening expenses of new stores plus higher than normal initial overhead costs tend to temporarily depress the profits in these development divisions. Our Caribbean Division is also in the Southern Region, and our results there have been more than satisfactory.

To keep pace with growth, the company is continuing its programs to strengthen the store management and middle management team and to develop executives on all levels. Grand Union continues to place special emphasis on identifying personnel with strong potential for advancement.

The primary vehicle for cultivation of human resources is the company's four-stage management development program for both department and general store managers. In addition, we continue to develop tailored programs for people promoted to middle management and supervisory positions.

In line with the national commitment to conserve energy, Grand Union has further refined and reinforced its efforts to preserve our natural resources and reduce energy costs whenever and wherever possible.

Efforts during the current year will be devoted to increasing our share of market while maintaining satisfactory gross margin and expense levels. In the supermarket industry, sales can be substantially increased at the expense of lower gross margins and increased promotional and advertising costs. Or, conversely, gross margins can be raised by failing to meet competitive pricing, or by reducing promotional and advertising expenses, but usually at the expense of sales and market share. The successful company is able to achieve a delicate balance among sales, gross margins, and expenses to produce the most satisfactory dollar return. That is the goal of our Supermarket Division.

Grand Way Division

The Grand Way general merchandise arm of the company had its most profitable year during 1976. The Division operates 14 Grand Way department stores as well as the nine Grand Catalog Showrooms which were merged into the Division at the beginning of the fiscal year. The new alignment allows each general merchandise unit to draw upon the expertise of the other, and, at the same time, coordinate warehousing, buying and accounting functions.

Major renovations were completed at Grand Way stores in Cortland, New York, and West Chester and Sunbury, Pennsylvania.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

THE GRAND UNION COMPANY AND SUBSIDIARIES

(Amounts in thousands)

	52 Weeks Ended April 2, 1977	53 Weeks Ended April 3, 1976
Sales	$ 1,622,633	$ 1,611,195
Cost of sales	1,266,057	1,274,485
Gross profit	356,576	336,710
Operating, administrative and general expenses (notes 9, 10 and 11)	325,438	305,810
Other deductions (income):		
Provision for store closings (note 11)	—	8,150
Interest expense	3,038	3,414
Loss on disposition of fixed assets	315	851
Interest, principally on temporary cash investments	(2,453)	(2,651)
Income before income taxes	30,238	21,136
Income taxes (notes 2 and 4)	12,620	9,449
Net income	17,618	11,687
Retained earnings, beginning of period	58,976	52,343
	76,594	64,030
Less cash dividends:		
Common, 95¢ per share (80¢ per share 1975)	5,919	4,969
Preferred, $2.25 per share	79	85
	5,998	5,054
Retained earnings, end of period	$ 70,596	$ 58,976
Net income per common share (note 2)	$ 2.81	$ 1.87

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEET
THE GRAND UNION COMPANY AND SUBSIDIARIES
(Amounts in thousands)

ASSETS	April 2, 1977	April 3, 1976
Current assets:		
Cash (note 8)	$ 4,272	$ 3,163
Temporary cash investments at cost (approximates market value)	62,950	34,887
Accounts receivable	6,347	6,184
Inventories (note 2)	157,585	142,983
Deferred federal income tax benefits (notes 2 and 4)	4,893	6,180
Prepaid expenses and operating supplies	5,499	5,447
Properties to be sold within one year	2,756	551
Total current assets	244,302	199,395
Property, net (notes 2 and 3)	104,505	101,826
Cost in excess of net assets of businesses acquired (note 2)	7,412	7,412
Other assets and deferred charges	2,149	2,876
	$ 358,368	$ 311,509

LIABILITIES AND STOCKHOLDERS' EQUITY

	April 2, 1977	April 3, 1976
Current liabilities:		
Accounts payable and accrued liabilities	$ 114,125	$ 91,729
Federal income taxes (notes 2 and 4)	5,105	8,149
Total current liabilities	119,230	99,878
Notes payable (note 7)	50,000	35,000
Subordinated debentures, 4⅛%, due 1978	285	342
Other non-current liabilities and reserves	1,644	1,756
Deferred federal income taxes (notes 2 and 4)	13,950	13,549
	185,109	150,525
Commitments and contingencies (notes 7,9 and 12)		
Stockholders' equity:		
4½% cumulative preferred stock, $50 par value, callable at $52 per share; authorized 116,000 shares, issued 35,409 shares	1,770	1,770
Common stock, $5 par value, authorized 9,000,000 shares, issued 6,609,078 shares (note 6)	33,045	33,045
Additional paid-in capital (note 5)	74,178	74,310
Retained earnings (note 7)	70,596	58,976
	179,589	168,101
Less, treasury stock at cost (note 5)	6,330	7,117
Total stockholders' equity	173,259	160,984
	$ 358,368	$ 311,509

See accompanying notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

GRAND UNION COMPANY AND SUBSIDIARIES

(Amounts in thousands)

FUNDS PROVIDED:	52 Weeks Ended April 2, 1977	53 Weeks Ended April 3, 1976
Net income	**$ 17,618**	$ 11,687
Charges to income not affecting working capital:		
Depreciation and amortization	**17,507**	17,458
Deferred federal income taxes and investment tax credit	**401**	(814)
Working capital provided from operations	**35,526**	28,331
Increase in long-term debt	**15,000**	—
Book value of property sales and reductions	**4,659**	5,452
	55,185	33,783
FUNDS USED:		
Dividends	**5,998**	5,054
Property additions	**24,845**	19,470
Reduction in long-term debt	—	24,107
Purchases of Company's preferred and common stocks	**13**	128
Other changes, net	**(1,226)**	81
	29,630	48,840
Increase (decrease) in working capital	**25,555**	(15,057)
Increase in working capital for the four weeks ended March 29, 1975 resulting from change in fiscal year	—	1,456
Increase (decrease) in working capital	**$ 25,555**	$(13,601)

CHANGES IN WORKING CAPITAL:	52 Weeks Ended April 2, 1977	57 Weeks Ended April 3, 1976
Increase (decrease) in current assets:		
Cash	**$ 1,109**	$ (1,417)
Temporary cash investments	**28,063**	(5,346)
Investments in preferred stocks	—	(4,782)
Accounts receivable	**163**	(1,894)
Inventories	**14,602**	(2,514)
Deferred federal income tax benefits	**(1,287)**	11
Prepaid expenses, operating supplies and other	**52**	1,025
Properties to be sold within one year	**2,205**	(4,044)
	44,907	(18,961)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	**22,396**	(10,432)
Federal income taxes	**(3,044)**	5,072
	19,352	(5,360)
Increase (decrease) in working capital	**$ 25,555**	$(13,601)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1 — Principal Stockholder:

As of April 2, 1977, Cavenham Limited, an English Company, through subsidiary companies (Cavenham (Overseas) Limited, Cavenham Holdings, Inc. and Cavenham (USA) Inc.) beneficially owned 5,074,609 shares, or approximately 81%, of the Company's outstanding common stock. Of this amount, 3,200,000 shares were acquired through a cash tender offer in December 1973 and 1,874,609 shares were acquired in January 1976 in exchange for debentures of Cavenham (USA) Inc. In connection with the exchange offer, certain restrictions were imposed on Grand Union, including among others, restrictions on its ability to incur additional debt and to issue additional stock. The Company is also a party to a tax sharing agreement with Cavenham (USA) Inc. and Cavenham Holdings Inc. See details in Note 4.

Note 2 — Summary of Accounting Policies:

The significant accounting principles affecting the Company's financial statements are summarized below.

Fiscal Year: The Company's fiscal year ends on the Saturday nearest the last day of March. Fiscal years 1976 and 1975 are comprised of 52 weeks and 53 weeks, respectively.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Significant intercompany transactions and balances have been eliminated.

Inventory Valuations: Inventories are valued principally at the lower of cost or market, using the retail method for store inventories, and average cost for warehouse and other inventories.

Property: The cost of significant additions, renewals and betterments of leased and owned properties are capitalized. Maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense currently. Depreciation is computed, principally on the straight-line method to amortize the cost of depreciable properties over their useful lives. Leasehold improvements are amortized over the shorter of the terms of the leases or their estimated useful lives.

Pre-Opening Costs: Store pre-opening costs and carrying charges relating to land held for development or sale are charged to expense in the year incurred.

Cost in Excess of Net Assets of Businesses Acquired: Management does not believe that such amounts, which arose from acquisitions prior to November 1, 1970, have diminished in value and accordingly is not amortizing such amount.

Income Taxes: Differences between income taxes provided on financial statement income and the actual amounts payable result in adjustments to the deferred or prepaid tax accounts. Such differences arise primarily through the use of accelerated methods of depreciation for tax purposes and the recording of certain reserves for financial statement purposes which are not deductible for tax purposes until the expenses are actually incurred. Investment tax credits are accounted for as a reduction of income taxes in the year that the credits arise.

Net Income Per Share: Net income per share of common stock is based on the weighted average number of shares of common stock outstanding during the period after giving effect to dividends on preferred stock. Stock options outstanding had no material dilutive effect.

Pension Plan: The Company maintains a non-contributory, trusteed pension plan for eligible employees. The Company's policy is to fund pension costs accrued. Pension expense under the plan consists of normal cost adjusted for amortization of past service costs over a forty year period.

Note 3 — Property:

Property, at cost, consisted of the following:

	April 2, 1977	April 3, 1976
	(in thousands)	
Land	$ 6,234	$ 6,050
Buildings	6,048	7,583
Fixtures and equipment	174,434	160,860
Leasehold improvements	41,163	38,400
	227,879	212,893
Less — Accumulated depreciation and amortization	123,374	111,067
	$104,505	$101,826

Note 4 — Income Taxes:

Effective with the exchange offer described in Note 1, the Company entered into a tax sharing agreement which provides for the filing of consolidated federal income tax returns and for a sharing payment to the Company by Cavenham Holdings of 15% of the amount by which the Company's federal income tax, calculated separately, plus the income taxes of Cavenham Holdings and Cavenham (USA) Inc., calculated separately, exceeds the actual federal income tax liability of the consolidated group. Income taxes payable have been reduced by $461,000 and $125,000 for the years 1976 and 1975, respectively, representing the Company's share of group tax savings.

The components of income tax expense are as follows:

	52 weeks Ended April 2, 1977	53 Weeks Ended April 3, 1976
	(in thousands)	
Federal income taxes:		
Currently payable, net of tax sharing credit	$ 8,615	$8,078
Amortization of deferred investment tax credit applicable to 1967 and prior years	(76)	(143)
Deferred, consisting of:		
Excess of tax over book depreciation	480	—
Difference between liabilities provided and payments made:		
Disposition of unprofitable stores	1,139	(226)
Other	504	(172)
State income taxes	1,958	1,912
Total income tax provision	$12,620	$9,449

The reconciliation of the provision for income taxes computed at the federal statutory rate to the reported provision for federal and other income taxes is as follows:

	52 Weeks Ended April 2, 1977	53 Weeks Ended April 3, 1976
	(in thousands)	
Provision computed at 48% of pre-tax income	$14,514	$10,146
Increase (decrease) in the provision resulting from:		
Tax sharing benefit	(461)	(125)
Current year's investment tax credit	(1,900)	(1,242)
State and local taxes, net of federal tax benefit	1,018	994
Other, net	(551)	(324)
	$12,620	$ 9,449

Note 5 — Stockholders' Equity:

Changes in additional paid-in capital and treasury stock are as follows:

	Additional Paid-in Capital	Treasury Stock
	(in thousands)	
Balance March 1, 1975 (includes 410,055 common shares and 5,957 preferred shares held in Treasury)	$74,231	$ 7,639
Issuance of 19,133 common shares for exercised stock options	(128)	(349)
Purchase of 4,218 shares of preferred stock	—	128
Retirement of 10,175 shares of preferred stock	207	(301)
Balance April 3, 1976 (includes 390,922 common shares held in Treasury)	74,310	7,117
Issuance of 18,965 common shares for exercised stock options	(127)	(345)
Purchase of 435 shares of preferred stock	—	13
Sale of 25,000 common shares to Cavenham Holdings	(5)	(455)
Balance April 2, 1977 (includes 346,957 common shares and 435 preferred shares held in Treasury)	$74,178	$ 6,330

Note 6 — Stock Options:

Pursuant to a non-qualified plan approved by the stockholders in May 1973, the Company was authorized to grant to key employees options to purchase 600,000 common shares at option prices equal to at least the fair market value at the date of grant and 100% exercisable one year from the date of grant.

No options may be granted after December 31, 1977 and no shares may be purchased under option after seven years from the date of grant or after December 31, 1984, whichever date occurs sooner.

The following is a summary of stock option transactions:

	Price Per Share	Under Option	Available for Option
Outstanding at March 1, 1975	$11.375-$13.00	139,995	459,400
Granted	—	—	—
Exercised	11.375- 13.00	(19,133)	
Cancelled	11.375	(11,525)	11,525
Outstanding at April 3, 1976	11.375- 13.00	109,337	470,925
Granted	—	—	—
Exercised	11.375- 13.00	(18,965)	—
Cancelled	11.375- 13.00	(12,210)	12,210
Outstanding at April 2, 1977	$11.375-$13.00	78,162	483,135

Options to purchase 78,162 and 109,337 shares were exercisable April 2, 1977 and April 3, 1976 respectively.

Note 7 — Long-Term Debt:

The 8% promissory notes of $35,000,000 at April 3, 1976 as well as $15,000,000 of interim short term borrowings under the Company's former revolving credit and loan agreement were refinanced pursuant to a Note Agreement for $50,000,000 at 8.4% dated February 1, 1977. The Note Agreement provides for additional borrowings of $15,000,000 on August 1, 1977 and requires annual repayments of principal from 1984 to 1997 increasing from $4,000,000 to $5,000,000.

The agreement contains certain dividends and other restrictions. At April 2, 1977 approximately $15,649,000 of retained earnings were free from such restrictions.

Note 8 — Compensating Balances and Borrowing Arrangements:

The Company has borrowing arrangements with a number of banks which generally call for the informal, but not legally binding, maintenance of compensating balances averaged over a yearly period in amounts equal to 10% of the bank lines of credit (aggregating $14,400,000) plus 10% of borrowings under some lines of credit. Compensating balances maintained under these agreements approximated $1,440,000 at April 2, 1977. A substantial portion of the compensating balances is normally covered by incompleted transactions with banks.

Note 9 — Property Leases:

The Company operates principally in leased stores, distribution facilities and offices and, in most cases, holds renewal options with varying terms. Many of the leases contain escalation clauses which provide for increased rentals based upon increases in real estate taxes and lessors' operating expenses. In prior years, many leases were considered financing leases as defined by the Securities and Exchange Commission on the basis that there existed a high degree of probability that renewal options would be exercised beyond the initial lease term. Under present economic and business conditions the Company no longer considers it appropriate to include such options in the evaluation of leases at April 2, 1977.

Total rental expense under all leases was as follows:

	52 Weeks Ended April 2, 1977	53 Weeks Ended April 3, 1976
	(in thousands)	
Minimum annual rents on non-cancellable financing leases (net of sublease rental income of $586,000 and $1,394,000, respectively)	$ 4,412	$18,383
Minimum annual rents on other leases (net of sublease rental income of $1,095,000 and $433,000, respectively)	24,522	9,200
Contingent rentals on non-cancellable financing leases (no sublease rental income)	33	1,028
Contingent rentals on other leases (no sublease rental income)	1,507	341
	$30,474	$28,952

Minimum annual rents, not including real estate taxes and additional payments based on percentages of sales, are as follows:

	April 2, 1977		
	Financing	Other	Total
	(in thousands)		
1977	$4,229	$20,396	$24,625
1978	4,028	18,622	22,650
1979	3,944	17,041	20,985
1980	3,990	15,491	19,481
1981	3,870	14,026	17,896
1982-86	15,152	54,799	69,951
1987-91	15,291	39,244	54,535
1992-96	9,511	9,353	18,864
Remainder	1,832	531	2,363

Amounts in the table above reflect the following deductions for sublease rental income:

	April 2, 1977		
	Financing	Other	Total
	(in thousands)		
1977	$ 734	$ 1,123	$ 1,857
1978	734	1,018	1,752
1979	607	963	1,570
1980	395	872	1,267
1981	395	642	1,037
1982-86	1,644	1,958	3,602
1987-91	197	401	598

The net present value (based on interest rates existing at the commencement of the lease, ranging from 5.00 – 10.00% with a weighted average of 8.82%) of minimum annual rents on non-capitalized financing leases is $23,486,000. These amounts have been reduced by the present value of sublease income of $3,492,000.

On the assumption that all non-capitalized financing leases as defined by the Securities and Exchange Commission were capitalized and amortized on a straight-line basis and interest costs were accrued on the related liability, net income would have been affected as follows:

	52 Weeks Ended April 2, 1977	53 Weeks Ended April 3, 1976
	(in thousands)	
Increase in depreciation expense	$1,822	$8,567
Increase in interest expense	2,860	9,395
Decrease in rent expense	4,390	15,812
Decrease in income tax expense	140	1,032
Pro forma decrease in net income	$ 152	$1,118

In November 1976, the Financial Accounting Standards Board issued a statement which established criteria for determining whether or not leases should be recorded in the financial statements of the Company as an asset and an obligation. The statement requires that all leases entered into after December 31, 1976 which meet the criteria for capital leases be immediately recorded as an asset and an obligation; leases in existence at December 31, 1976 must be reflected retroactively in the Company's financial statements no later than 1981. A pending proposal by the Securities and Exchange Commission may require retroactive adoption in 1977. The Company has completed a study of the new lease disclosure requirements and has concluded that the lease amounts disclosed above at April 2, 1977 substantially correspond to lease amounts which will ultimately be disclosed or capitalized under the new requirements.

Note 10 — Pension Plan:

Pension expense under the Company's non-contributory plan was $2,460,000 at April 2, 1977 and $1,478,000 at April 3, 1976. There are no unfunded vested benefits.

Note 11 — Reorganization Expenses:

During the fiscal year ended April 3, 1976 the Company discontinued the operation of its Triple S Blue Trading Stamp Company and closed certain Grand Catalog Showrooms. As a result of these undertakings, unusual charges of $6,650,000 in the fiscal year ended April 3 1976 were recorded, net of credits of $1,500,000 resulting from re-evaluations of the estimated future liability for redemptions of trading stamps carried out in connection with the closing of the trading stamp business.

Note 12 — Contingencies:

The Company has been named as a co-defendant in numerous similar antitrust actions brought by producers and feeders of cattle. Each of the actions allege violations by the defendants of the federal antitrust laws in connection with the purchase and sale of beef and seeks damages and injunctive relief. All of these lawsuits are in early pre-trial stage. It is not possible to predict with any degree of certainty the ultimate outcome of any of these lawsuits since, among other things, the conduct of the other defendants as alleged co-conspirators could affect the liability of the Company. However, the management of the Company believes that it has good and meritorious defenses to each of such lawsuits.

Note 13 — Asset Replacement Cost (Unaudited):

The Securities and Exchange Commission has issued regulations which requires the Company's annual report on Form 10-K to include estimated additional costs which would be required if the Company were to replace its inventory and productive capacity at April 2, 1977 and the related estimated effect of such costs on depreciation expense and cost of sales. This requirement has been designed as an attempt to quantify the effects of inflation on the Company's financial position and its results of operation.

Replacement cost of inventories and cost of sales closely approximated the amounts reported on the consolidated balance sheet and income statement, due to the relatively short time lag between incurring inventory costs and their subsequent conversion into sales revenue.

Although the cumulative impact of inflation over a number of years has resulted in a substantially greater capital investment to replace productive capacity compared to historical cost, such greater replacement costs were partially offset by technological improvements and design changes which often resulted in increased productivity and a maintenance of the Company's profit margin.

The Commission's regulations do not specify uniform procedures for development of replacement costs. In addition, the above information necessarily reflects the subjective judgement of management and estimations based on available information.

Note 14 — Selected Quarterly Financial Data (Unaudited):

For unaudited data relating to 1976 and 1975 quarterly sales, gross profit, net income and related per share amounts, see "Stock Price, Dividend and Earnings Data" on page 16.

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.

411 Hackensack Avenue
Hackensack, New Jersey 07601
April 25, 1977

To The Board of Directors and Stockholders of The Grand Union Company:

In our opinion, the accompanying consolidated balance sheet and the related statements of income and retained earnings and of changes in financial position present fairly the financial position of The Grand Union Company and its subsidiaries at April 2, 1977 and April 3, 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

FIVE-YEAR FINANCIAL SUMMARY

THE GRAND UNION COMPANY AND SUBSIDIARIES

(Amounts in thousands except for per share figures)

FOR THE FISCAL YEAR ENDED	**April 2, 1977**	April 3, 1976 (a)	March 1, 1975	March 2, 1974	March 3, 1973 (a)
Sales	**$1,622,633**	$1,611,195	$1,562,736	$1,493,969	$1,379,681
Cost of sales	**1,266,057**	1,274,485	1,228,744	1,177,442	1,086,729
Gross profit	**356,576**	336,710	333,992	316,527	292,952
Operating, administrative and general expenses	**325,438**	305,810	307,291	301,553	277,163
Other deductions (income):					
Provision for store closings	—	8,150	2,093	9,039	—
Write-down of preferred stocks	—	—	4,619	1,864	—
Interest expense	**3,038**	3,414	4,880	2,610	235
Loss (gain) on disposition of fixed assets	**315**	851	406	(131)	439
Interest, principally on temporary cash investments	**(2,453)**	(2,651)	(2,318)	(663)	(411)
Dividends from investments	—	—	(1,279)	(699)	(151)
Income before income taxes and extraordinary items	**30,238**	21,136	18,300	2,954	15,677
Provision for income taxes	**12,620**	9,449	8,796	645	6,685
Income before extraordinary items	**17,618**	11,687	9,504	2,309	8,992
Extraordinary items	—	—	—	—	(612)
Net income	**$17,618**	$11,687	$9,504	$2,309	$8,380
Income per common share:					
Before extraordinary items	**$2.81**	$1.87	$1.51	$.35	$1.40
Extraordinary items	—	—	—	—	(.10)
Net income per common share	**$2.81**	$1.87	$1.51	$.35	$1.30
Cash dividends	**$.95**	$.80	$.80	$.80	$.80
Net income as a percent of sales	**1.09%**	.73%	.61%	.15%	.61%

AT THE YEAR END

Ratio of current assets to current liabilities	**2.05 to 1**	2.00 to 1	2.07 to 1	1.87 to 1	1.70 to 1
Equity per common share	**27.39**	25.60	24.51	23.45	23.92
Number of stores at year end:					
Supermarkets	**484**	487	503	531	539
Grand Way stores	**14**	14	14	23	23
Grand Catalog Showrooms	**9**	9	17	18	5

(a) 53-week fiscal year

GENERAL

The improvement in net income that the Company has experienced in recent years is primarily related to increased gross profits, together with certain profit improvement programs, including closing of unprofitable stores, discontinuance of trading stamp programs, and labor cost reductions, all of which were implemented since Cavenham (UK) purchased its initial investment in Grand Union shares in December, 1973 and restructured Grand Union Management.

FISCAL YEAR 1976 vs. FISCAL YEAR 1975

Sales for fiscal 1976 increased only slightly over fiscal 1975, though gross profit as a percent of sales increased 1.1%, primarily due to the opening of larger stores and renovating and enlarging of existing stores, thereby increasing flexibility in the products offered for sale in the stores.

The increase in operating, administrative and general expense reflects higher employment costs, increased advertising costs and higher store occupancy costs.

The loss on disposition of fixed assets primarily reflects the provision for net gains and losses on supermarket closings and/or renovations which is dependent on the age and size of the individual stores.

The decrease in interest expense resulted from a decrease in average indebtedness during the year.

The effective tax rate for 1976 is 42% as compared to 45% for 1975, which resulted from the tax savings as a participant in the Cavenham Holdings tax sharing agreement and a relatively higher investment tax credit.

FISCAL YEAR 1975 vs. FISCAL YEAR 1974

Sales for the 1975 fiscal year increased 3% over the 1974 fiscal year. The increase, however, was substantially offset by a corresponding increase in the cost of sales due to the effect of inflation on the cost of merchandise.

The decline in operating, administrative and general expense was mainly due to the closing of units other than supermarkets.

Included in the results for the fiscal year ended April 3, 1976, are unusual charges established for losses anticipated in connection with the discontinuance of certain operations, including a reserve of $2,400,000 for the closing of five Grand Catalog Showrooms and all leased department operations and a reserve of $5,750,000 in connection with the further discontinuance of Triple S Blue Trading Stamps.

The loss on disposition of fixed assets resulted primarily from supermarket closings completed early in the fiscal year.

Interest on temporary cash investment reflects the investment of cash, including amounts resulting from the liquidation of the Company's preferred stock investments, not immediately required for operating purposes at relatively higher interest rates prevailing in the beginning of 1975.

The dividends from investments reflect dividends from preferred stock holdings, the liquidation of which was completed in early 1975.

STOCK PRICE, DIVIDEND AND EARNINGS DATA

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales (in thousands)	1976	$487,028	$368,003	$392,686	$374,916
	1975	474,848	361,735	378,739	395,873
Gross profit (in thousands)	1976	$105,207	$ 80,039	$ 87,601	$83,729
	1975	99,140	72,397	80,478	84,695
Net income (in thousands)	1976	$ 4,380	$3,305	$6,586	$3,347
	1975	(2,452)	3,971	5,046	5,122
Net income per share	1976	$ .70	$.53	$1.05	$.53
	1975	(.40)	.64	.80	.83
Dividends per share	1976	$.20	$.25	$.25	$.25
	1975	.20	.20	.20	.20
Price range of common stock	1976 High	15¼	18⅜	17⅞	21¼
	Low	12⅝	13⅞	15⅛	16⅛
	1975 High	15⅞	15⅜	16⅜	15⅞
	Low	14	12¾	10⅜	13¾

The first quarter of fiscal years 1976 and 1975 consisted of 16 weeks; all other quarters consisted of 12 weeks with the exception of the 1975 fourth quarter which consisted of 13 weeks.

Service is a Grand Union tradition. Here, Jack Clarke, General Manager of the company's Ramapo, New York, store helps a customer load her weekly food purchases into her automobile.

DIRECTORS AND OFFICERS THE GRAND UNION COMPANY

DIRECTORS

Emerson E. Brightman
Executive Vice President

Thomas R. Doyle
Executive Vice President and Chief Operating Officer

Sir James Goldsmith
Chairman of the Board, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

Bowman Gray III
President, General Occidental, Inc., international finance, Elmwood Park, New Jersey

S. William Green
Attorney
New York City, New York

Jack Greenhalgh
Executive Vice Chairman and Managing Director, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

Michael L. Haynes
Director, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

Dr. Rafael Picó
Vice Chairman, Banco Popular de Puerto Rico, financial institution, San Juan, Puerto Rico

Arthur Ross
Vice Chairman and Managing Director, Central National Corporation, investments, New York City, New York

Lionel J. Ross
Financial Director, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

Earl R. Silvers, Jr.
Administrative Vice President and Secretary

James Wood
President and Chief Executive Officer, The Grand Union Company; Joint Deputy Managing Director, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

OFFICERS

James Wood
President and Chief Executive Officer

Thomas R. Doyle
Executive Vice President and Chief Operating Officer

Emerson E. Brightman
Executive Vice President - Services

Patrick A. Deo
Executive Vice President - Supermarkets

Ernest H. Berthold
Senior Vice President - Supermarket Operations

Alan C. Goulding
Senior Vice President - Merchandising

Bertram S. Kaiser
Vice President - Grand Way Division

J. Barron Leeds
Vice President - Labor Relations

John D. O'Connell
Vice President - Development

Rodney L. Renné
Vice President - Distribution

Russell W. Schroeder
Vice President - Management Information Systems

Caryle J. Sherwin
Vice President - New York Region

Earl R. Silvers, Jr.
Administrative Vice President and Secretary

Stuart S. Tarrant
Financial Vice President

Vincent J. Veninata
Vice President - Personnel

Vito A. Cardace
Controller

Lee E. Sappington
Treasurer

Baxter T. Duffy
Assistant Secretary

Frederick H. Guntsch
Assistant Secretary

A GRAND UNION OF
ALL GOOD THINGS

GRAND UNION®
SUPERMARKETS

THE GRAND UNION COMPANY
100 Broadway, Elmwood Park, New Jersey 07407